

GWG Holdings, Inc.
Form 10-Q
May 11, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the transition period from _____ to _____

Commission File Number: None

GWG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

26-2222607

(I.R.S. Employer
Identification No.)

220 South Sixth Street, Suite 1200

Minneapolis, MN 55402

(Address of principal executive offices, including zip code)

(612) 746-1944

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes " No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes " No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|---|---------------------------|---|
| Large accelerated filer | " | Accelerated filer | " |
| Non-accelerated filer | " (Do not check if a smaller reporting company) | Smaller reporting company | x |
| | | Emerging growth company | x |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). " Yes x No

As of May 11, 2018, GWG Holdings, Inc. had 5,813,555 shares of common stock outstanding.

GWG HOLDINGS, INC.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2018 (unaudited) | December 31, 2017 |
|--|----------------------------------|-----------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 141,212,907 | \$ 114,421,491 |
| Restricted cash | 16,552,256 | 28,349,685 |
| Investment in life insurance policies, at fair value | 687,389,479 | 650,527,353 |
| Secured MCA advances | 1,639,818 | 1,661,774 |
| Life insurance policy benefits receivable | 12,302,730 | 16,658,761 |
| Other assets | 7,402,317 | 7,237,110 |
| TOTAL ASSETS | \$ 866,499,507 | \$ 818,856,174 |
| <u>LIABILITIES & STOCKHOLDERS' EQUITY</u> | | |
| LIABILITIES | | |
| Senior credit facility with LNV Corporation | \$ 209,447,613 | \$ 212,238,192 |
| L Bonds | 469,729,977 | 447,393,568 |
| Accounts payable | 3,611,900 | 6,394,439 |
| Interest and dividends payable | 15,896,267 | 15,427,509 |
| Other accrued expenses | 4,066,763 | 3,730,723 |
| TOTAL LIABILITIES | \$ 702,752,520 | \$ 685,184,431 |
| STOCKHOLDERS' EQUITY | | |
| REDEEMABLE PREFERRED STOCK | | |
| (par value \$0.001; shares authorized 100,000; shares outstanding 98,358 and 98,611; liquidation preference of \$98,932,000 and \$99,186,000 as of March 31, 2018 and December 31, 2017, respectively) | 90,915,026 | 92,840,243 |
| SERIES 2 REDEEMABLE PREFERRED STOCK | | |
| (par value \$0.001; shares authorized 150,000; shares outstanding 134,951 and 88,709; liquidation preference of \$135,712,000 and \$89,208,000 as of March 31, 2018 and December 31, 2017, respectively) | 121,454,205 | 80,275,204 |
| COMMON STOCK | | |
| (par value \$0.001; shares authorized 210,000,000; shares issued and outstanding 5,813,555 as of both March 31, 2018 and December 31, 2017) | 5,813 | 5,813 |
| Additional paid-in capital | — | — |
| Accumulated deficit | (48,628,057) | (39,449,517) |
| TOTAL STOCKHOLDERS' EQUITY | 163,746,987 | 133,671,743 |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ 866,499,507 | \$ 818,856,174 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

| | Three Months Ended March 31, 2018 | March 31, 2017 |
|---|---|-------------------|
| REVENUE | | |
| Gain on life insurance policies, net | \$ 13,868,745 | \$ 19,399,819 |
| MCA income | 66,810 | 246,577 |
| Interest and other income | 606,117 | 441,949 |
| TOTAL REVENUE | 14,541,672 | 20,088,345 |
| EXPENSES | | |
| Interest expense | 16,063,337 | 13,244,215 |
| Employee compensation and benefits | 3,742,669 | 3,163,062 |
| Legal and professional fees | 1,173,629 | 946,348 |
| Other expenses | 2,740,577 | 2,780,322 |
| TOTAL EXPENSES | 23,720,212 | 20,133,947 |
| INCOME (LOSS) BEFORE INCOME TAXES | (9,178,540) | (45,602) |
| INCOME TAX EXPENSE (BENEFIT) | — | (500) |
| NET INCOME (LOSS) | (9,178,540) | (45,102) |
| Preferred stock dividends | 3,704,484 | 1,867,760 |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$ (12,883,024) | \$ (1,912,862) |
| NET INCOME (LOSS) PER SHARE | | |
| Basic | \$ (2.22) | \$ (0.32) |
| Diluted | \$ (2.22) | \$ (0.32) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 5,813,555 | 5,912,946 |
| Diluted | 5,813,555 | 5,912,946 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| | Three Months Ended March 31, 2018 | March 31, 2017 |
|---|---|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (9,178,540) | \$ (45,102) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: | | |
| Change in fair value of life insurance policies | (16,645,594) | (13,883,833) |
| Amortization of deferred financing and issuance costs | 2,263,188 | 2,666,203 |
| Deferred income taxes | — | (500) |
| Preferred stock issued in lieu of cash dividends | — | 336,789 |
| (Increase) decrease in operating assets: | | |
| Life insurance policy benefits receivable | 4,356,031 | (3,630,000) |
| Other assets | (165,207) | 1,426,318 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and other accrued expenses | (1,545,208) | 1,209,417 |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | (20,915,330) | (11,920,708) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment in life insurance policies | (25,299,825) | (22,689,333) |
| Carrying value of matured life insurance policies | 5,083,294 | 2,368,974 |
| Proceeds from Secured MCA advances | 88,766 | 770,387 |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | (20,127,765) | (19,549,972) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net borrowings on (repayments of) Senior Credit Facilities | (3,054,335) | (3,254,500) |
| Payments for issuance of senior debt | — | (114,294) |
| Payments for redemption of Series I Secured Notes | — | (5,449,889) |
| Proceeds from issuance of L Bonds | 36,661,099 | 24,868,659 |
| Payments for issuance and redemption of L Bonds | (12,245,448) | (24,171,597) |
| Repurchase of common stock | — | (1,603,560) |
| Proceeds from issuance of preferred stock | 41,865,169 | 27,179,194 |
| Payment for issuance of preferred stock | (3,157,695) | (2,017,487) |
| Payment for redemption of preferred stock | (327,224) | (386,739) |
| Preferred stock dividends | (3,704,484) | (1,867,760) |
| NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | 56,037,082 | 13,182,027 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 14,993,987 | (18,288,653) |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | | |
| BEGINNING OF PERIOD | 142,771,176 | 116,313,578 |
| END OF PERIOD | \$ 157,765,163 | \$ 98,024,925 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — CONTINUED

(unaudited)

| | Three Months Ended March 31, 2018 | March 31, 2017 |
|--|---|-------------------|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | \$ 13,475,000 | \$ 10,471,000 |
| Premiums paid, including prepaid | \$ 11,833,000 | \$ 10,960,000 |
| Stock-based compensation | \$ 213,000 | \$ 303,000 |
| Payments for exercised stock options | \$ 37,000 | \$ — |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| L Bonds: | | |
| Conversion of accrued interest and commissions payable to principal | \$ 342,000 | \$ 508,000 |
| Conversion of maturing L Bonds to redeemable preferred stock | \$ 4,421,000 | \$ — |
| Series A Preferred Stock: | | |
| Issuance of Series A Preferred Stock in lieu of cash dividends | \$ — | \$ 171,000 |
| Investment in life insurance policies included in accounts payable | \$ 1,350,000 | \$ 1,237,000 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

| | Preferred Stock Shares | Preferred Stock | Common Shares | Common Stock (par) | Additional Paid-in Capital | Accumulated Deficit | Total Equity |
|---|---------------------------------------|----------------------------|--------------------------|-----------------------------------|---|--------------------------------|-------------------------|
| Balance, December 31, 2016 | 2,699,704 | \$ 78,726,297 | 5,980,190 | \$ 5,980 | \$ 7,383,515 | \$ (18,817,294) | \$ 67,298,498 |
| Net loss | — | — | — | — | — | (20,632,223) | (20,632,223) |
| Issuance of common stock | — | — | 33,810 | 33 | 320,970 | — | 321,003 |
| Redemption of common stock | — | — | (200,445) | (200) | (1,603,360) | — | (1,603,560) |
| Issuance of Series A preferred stock | 71,237 | 498,659 | — | — | — | — | 498,659 |
| Redemption of Series A preferred stock | (2,711,916) | (20,199,792) | — | — | — | — | (20,199,792) |